

“Making Fund Balance More Meaningful”

LGA Convenes Group to Respond to GASB Invitation To Comment on Fund Balance Reporting and Governmental Fund Type Definitions

On January 12, 2007, the Local Government Academy hosted its first ever discussion forum providing for an opportunity for interested parties to meet and discuss the Governmental Accounting Standard's Board (GASB) Invitation to Comment on Fund Balance Reporting and Governmental Fund Type Definitions. This document discussed background information on some of GASB's thoughts on current fund balance and fund type shortfalls and asked a series of 14 questions whose answers will help them prepare the final statement that all governments will have to follow. Participants at the forum included elected officials, municipal management, DCED representatives, CPA's, and LGA staff. This article will summarize some of the key points being considered by the GASB and the responses to the questions that the group agreed upon.

Overall comments on this ITC were positive and everyone involved in the development of this response agreed that all issues being considered by the GASB are legitimate and will improve financial statement reporting in several ways including: 1) more consistent usage of fund types allowing for better comparisons between governments; 2) more concise definitions for fund balance categories that will also lead to more consistency and will eliminate the discrepancies that currently exist between governments; and, 3) the fund balance changes will allow for easier determination of what is truly available to be appropriated for the various funds within the government.

Several of the questions centered around what should be accounted for in special revenue funds. The consensus of our group was that all sources of funds and related expenditures related to a specific project or purpose should be included in a special revenue fund as opposed to just limiting the activity to a specific revenue source if that did not encompass the entire operation. For example if you have a library operation that is paid for through a dedicated real estate tax millage, state funding, and other local revenue, then it only makes sense to include all of this in the one fund instead of having one fund for the state funding with the real estate taxed being reflected in the general fund, etc. Our group felt that it was more important to report the entire function in one fund then to segregate specific revenue sources in different funds.

The GASB also wants to try and clarify if only restricted revenues sources should be included in special revenue funds or if a more broadly defined legally limited revenue sources should apply. There was some disagreement on this topic with several people feeling that these funds should only be used for restricted revenues and that if it was more broadly defined, governments would take advantage and would continue to hide general fund amounts in special revenue funds. The GASB's suggested wording for what would have to happen to meet the legally limited definition would address some of the concerns of our group and would allow for more flexibility for governmental reporting.

One of the concepts that governments currently used that is a concern to the GASB is the “rainy day” fund or operating reserve fund. These are funds that have specific purpose but can be used at the discretion of the government should the need arise. The conclusion of our group on this matter was that “rainy day” funds should not be allowed and that such amounts should be recorded in the general fund with a designation of fund balance and proper footnote disclosure to explain the designation.

The GASB then got into questions on capital projects and debt service funds. The first was whether or not these funds should include resources restricted for purposes consistent with the fund as well as funds that were intended for those same purposes. The majority of the group felt that intended resources should be kept in the general fund and reported as such in the fund balance section and should not be transferred to the capital projects or debt service funds. The main concern was the potential abuse if intentions were allowed and the likelihood that intentions will change over time.

The remainder of the questions related to fund balance reporting with the first one asking whether or not we believed that the break out of fund balance for intentions of the government be required, optional, or prohibited. In other words should designated fund balance reporting be required, optional or prohibited. Currently, such reporting is optional and is not used by many governments. Our discussions centered once again on consistency and believed that to ensure consistency that it should either be required or prohibited with the majority leaning towards requiring the reporting. However, others argued that they could see situations where reporting intentions of the government would be very important but would like to have the option to use designations.

The final several questions on fund balance gave three possible equity sections to consider and wanted us to pick one of the options and discuss why we liked that one over the others. The group felt that each of the options had their merits but leaned toward the one that appeared to report the most detail on what funds were truly restricted, unrestricted yet assigned to some function, and the remainder that was unrestricted and unassigned. Our group was most concerned with making sure that the fund balance section was easily understood by all readers of the financial statements and that the readers could quickly pick out what funds were available for the various functions within the municipality.

Overall the forum was a great opportunity for our diverse group to discuss the issues being considered by the GASB and to author a response to the sixteen questions that was sent to the GASB for their consideration. Our thanks to Advocate for Good Government, [Maher Duessel](#), for providing an overview of the provisions and the Government Finance Officers Association of Pennsylvania – West Chapter for providing the refreshments.